

October 18, 2002

California Energy Commission
Attn: Docket Office
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512

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02-IEP-1	
DATE	OCT 18 2002
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Docket No. 02-IEP-01

Dear Commission:

Re: Southern California Edison's Comments on the
2003 Integrated Energy Policy Report

Southern California Edison (SCE) appreciates the opportunity to review the Staff's Proposed Issues for inclusion in the *2003 Integrated Energy Policy Report* (Report), which will be initially discussed at the October 22, 2002 hearing. The Energy Commission's (CEC) schedule calls for a yearlong effort to prepare a report to be sent to the Governor and the Legislator on November 1, 2003. As noted in the staff draft, proceedings and decisions of other policy bodies will be employed, so it is imperative for the Committee to remain cognizant of the many issues confronting California's electricity sector and resolution of these issues, many affecting the agenda under consideration. Even to present existing conditions and expected trends will itself present a problematic task for the Integrated Energy Policy Report Committee (Committee), let alone formulation of policy recommendations from these conditions. The Committee should, therefore, allow for the needed flexibility as it establishes the analytical foundation for future policy recommendations.

SCE believes several important issues have not been addressed in the Report, and clarifications that should be added to the report are offered for the Committee's consideration.

Capital Investment

SCE suggests adding an entire section on attracting investment dollars into California in order to ensure adequate infrastructure growth and maintenance.

Assessing demand/supply issues in order to determine what are California's additional energy needs is one important aspect of ensuring reliable power supply, but we should all recognize that the creation of a stable investment environment is necessary for actions to be taken based on the supply needs. California has become a riskier place to do business. This is due to many factors, including dysfunctional gas and electric markets. But even when those are behaving, as they have been the last twelve months, the perceived adverse government and regulatory environment makes it a risky place for investment in energy infrastructure, resulting in higher costs and potential reliability problems.

The Committee should focus some efforts on what it will take to attract energy infrastructure investment into California energy systems, return investor confidence again and restore creditworthy status of California investor owned utilities.

Permitting

Continuing improvement in permitting and siting is necessary to effectively balance California's environmental concerns with its need for infrastructure to meet a growing demand for energy. SCE believes the Commission must recognize the importance of financial issues in the development of effective energy policy. Completely ignoring the financial issues that grip the entire energy sector right now will make any state energy policy appear to be a bureaucratic exercise, as opposed to a serious attempt at improving California's energy outlook.

Fuel Diversity

SCE suggests adding a section addressing fuel diversity as a matter of policy to assure reasonably expected supply adequacy under various possible conditions (drought or large generator unit shutdown are a few examples to consider). A very large percentage of new generation requesting interconnection with SCE is fueled on natural gas.

In addition, SCE believes that the CEC needs to provide a factual assessment of the various technologies, including:

- Installation and Operating Costs
- Environmental Impacts
- Technology Potential (Low, Moderate and High)

Federal and State Efforts

There are a number of issues that fall under matters related to State and Federal regulatory responsibility. Clearly, the electric sector will be confronting some important issues, and while a single report may not be adequate or the appropriate forum to resolve all matters of concern, an examination of the issues deserves consideration.

At this point, one of the major issues effecting the electricity industry is just what the future market design is going to be, including the responsibility for operating and planning reserves. Both the ISO and, for that matter, the FERC are developing approaches that will greatly impact how the state provides its citizens electricity requirements.

In addition, SCE suggests consideration also be given to addressing the following questions:

- What technological issues or limitations are constraining consumer interest in alternative technologies?
- Voluntary initiatives vs. command and control – What regulatory methods will be used to test new approaches in the California electric market?
- What role will California investor utilities have in research and development and deployment of ratepayer funded activities?
- To what degree will consumers experience price volatility in the electric market?

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- Regulatory treatment of renewable energy sources needs to be understood. What regulatory framework needs to be established to fulfill the State's renewable goals? What are the disclosure and reporting requirements?
- In preparing different scenarios, what are the key drivers that lead to different policy conclusions?
- What security issues are of concern? Not only of infrastructure but also from cyber attacks?
- Finally, given all the issues identified, what are the implications for California's electricity sector, consumers and economy?

SCE plans on being an active participant in the preparation of the 2003 Integrated Energy Policy Report. If you have any questions, please call me at (916) 441-2369.

Sincerely,

Manuel Alvarez

cc: Commissioner James D. Boyd
Chairman William J. Keese
Karen Griffin